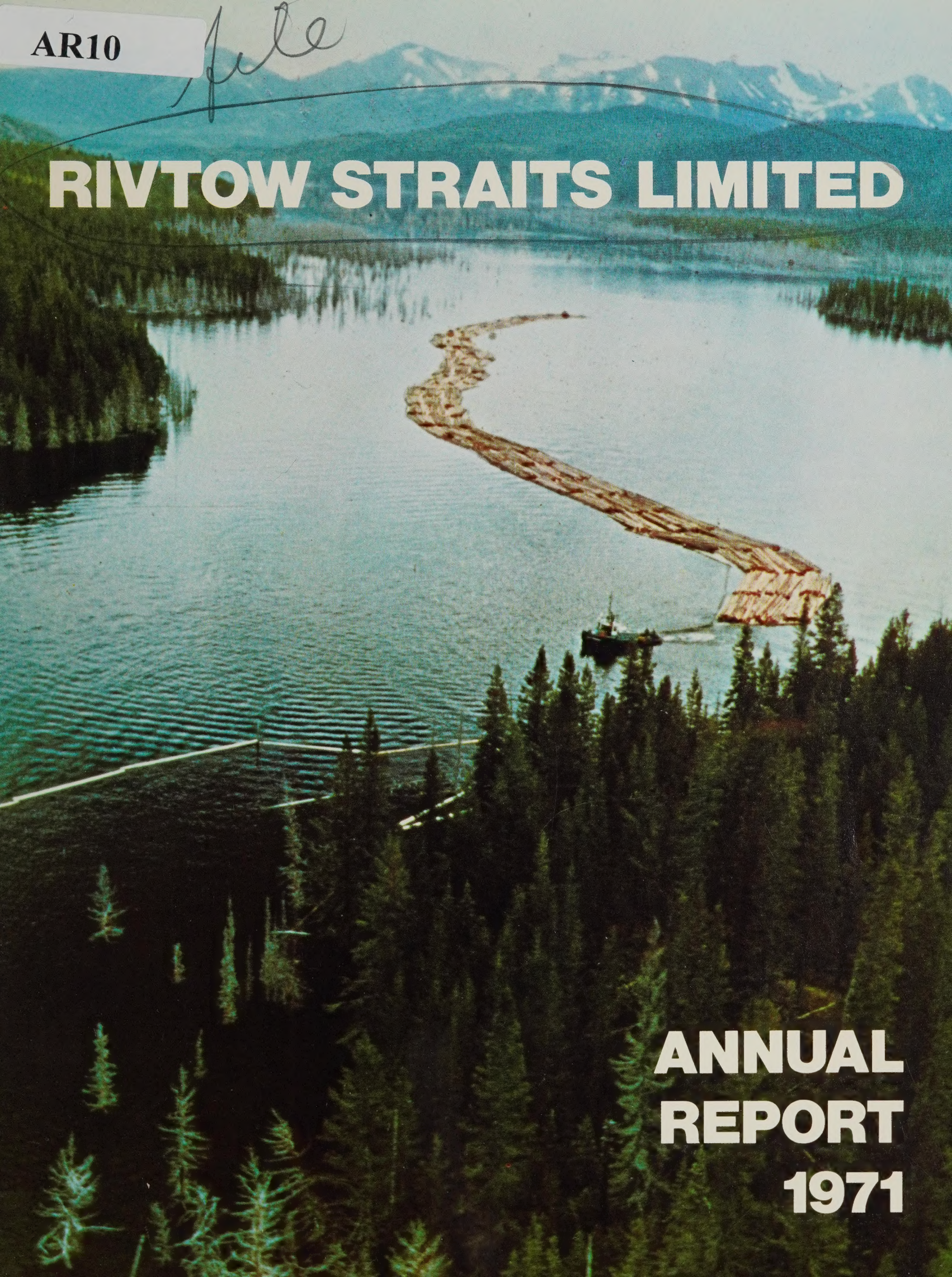


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RIVTOW STRAITS LIMITED

**ANNUAL
REPORT
1971**



**ANNUAL
GENERAL
MEETING**

York Room,
Hotel Georgia,
Vancouver, B.C.

June 7th,
1972, 2:00 p.m.
Vancouver Time

DIRECTORS

George B. McKeen
Cecil S. Cosulich
Norman R. Cosulich
Lucille M. Johnstone
Arthur B. Christopher
Ronald L. Cliff
Harold M. Gale
John Pearson

EXECUTIVE OFFICERS

George B. McKeen, Chairman of the Board
Cecil S. Cosulich, President & Chief Executive Officer
Norman R. Cosulich, Vice-President—Operations
Lucille M. Johnstone, Vice-President—Administration

SECRETARY

David A. Lawson

HEAD OFFICE

2215 Commissioner Street, Vancouver 6, B.C.
Phone—Area Code 604-255-1133

DIVISIONAL BASES

Prince Rupert
Stewart
Kitimat
Harrison
Terrace
Masset

SHIPBUILDING & REPAIRS

B.C. Marine Shipbuilders Limited,
Ft. of Victoria Drive North, Vancouver 6, B.C.
Phone—Area Code 604-255-3121

BANKERS

Royal Bank of Canada

AUDITORS

Thorne, Gunn, Helliwell & Christenson

TRANSFER AGENTS & REGISTRAR

National Trust Company Limited,
Vancouver, B.C.

STOCK LISTING

Vancouver Stock Exchange

THE COVER

R.S.L. performs a unique towing service for Eurocan Pulp and Paper Co. Ltd.

Logs cut for Eurocan's Kitimat mill are trucked to Andrew Bay on the north west shore of Ootsa Lake which is situated approximately 150 miles west of Prince George and north of Tweedsmuir Park. The logs are bundled, rafted and towed 45 miles by R.S.L.'s "Gulf Monarch" from Andrew Bay down Ootsa Lake into Tahtsa Lake to its western shore. Here the log bundles are picked from the water,

reloaded onto trucks, transported over Sandifer Pass to the salt water at Kemano. They are once again dumped into the water and towed by R.S.L. to Eurocan's log storage at Kitimat.

As required, the bundles are picked from the water and transported overland to the mill. Between mid-May and mid-September, over 140,000 cunits of wood come to Eurocan's mill from Andrew Bay. Between mid-May and mid-September, R.S.L. vessels and crew are on hand, providing know-how and service.

REPORT TO THE SHAREHOLDERS

R.S.L.'s major volume of business is derived from the movement of forest products. We expect this segment of our operations to be improved in 1972 as compared with the poor market prevailing in 1971. The '71 sag in the lumber, pulp and newsprint markets directly influenced the results for the year.

The loss of our largest log barge "RivTow Norseman" in October, 1971, had serious effects on our operations. Fortunately, there were no injuries or loss of life in this accident. We have reorganized our operations on a satisfactory basis to cope with the contractual commitment formerly fulfilled by this 3 MM fbm capacity barge.

Our efforts to expand the economic operating base of the company to other than forest products have had encouraging results:

- increased gravel sales should exceed 200,000 tons in 1972.
- our scheduled freight barge movement is increasing and the trucking operation in conjunction with these barges will double this volume in 1972.
- the readymix operation was very satisfactory in 1971 and a similar performance is expected in 1972.
- our shipyard activities will be broadened and more diversified.

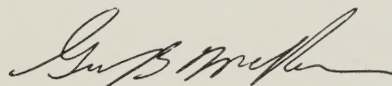
These activities are at present less than 25% of our overall volume—nevertheless they are growing and we look forward to these being extremely important sectors in the future.

All our operations are sensitive to work stoppages and unrest in the construction or forest industries.

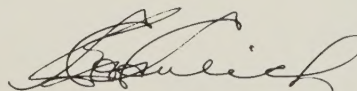
A prolonged period of work stoppage in either or both will adversely affect R.S.L. earnings. Our labour agreements with marine personnel and shipyard personnel expire respectively in September and October, 1972. R.S.L. is a member of T.I.R.A. (Towboat Industrial Relations Association) which will bargain for the majority of the towing industry.

1971 was our first full year of operation since the merger in mid 1970. The organizational structure of the new company is functioning well due to the teamwork displayed by R.S.L. management and employees. On behalf of the Board, we sincerely express our appreciation and gratitude.

We deeply regret the sudden and untimely loss of five of our crewmen, Captain John Carstens, Mate George C. Ramsdin, Engineer Thomas A. Greer, Deckhand Frederic J. Pullen and Deckhand Olav Rysstad—on board the tug Haro Straits which went down off Point Roberts on February 27, 1972. Our deepest sympathy is extended to their families and next of kin.



George B. McKeen
Chairman of the Board



Cecil S. Cosulich
President and Chief Executive Officer

RIVTOW STRAITS LIMITED

(Incorporated under the laws of British Columbia)

and subsidiary companies

CONSOLIDATED BALANCE SHEET

(with comparative figures)

ASSETS**CURRENT ASSETS**

	<u>1971</u>	<u>1970</u>
Cash	\$ 5,711	\$ 149,189
Short-term deposits and investments, at cost which approximates market value	48,458	651,496
Deposits with the Minister of Industry	533,086	211,538
Accounts receivable	3,553,898	2,686,308
Income taxes recoverable	—	18,685
Inventories		
Materials and supplies, at lower of cost and replacement cost	269,688	213,369
Products for resale and work in progress, at lower of cost and net realizable value	196,153	17,370
Prepaid expenses	399,170	423,063
	<u>5,006,164</u>	<u>4,371,018</u>

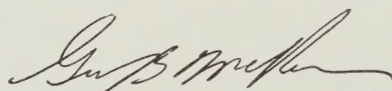
INVESTMENTS AND NON-CURRENT RECEIVABLES (note 2)

Investments in associated companies, at cost	211,261	2
Advances to associated companies	244,381	155,517
Notes, mortgages and accounts receivable, net of current portion included in accounts receivable	138,830	186,235
Insurance proceeds receivable	1,463,400	—
	<u>2,057,872</u>	<u>341,754</u>

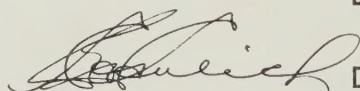
FIXED ASSETS (notes 3 and 8)

Vessels, plant and equipment	18,660,808	16,148,853
Less accumulated depreciation	2,613,319	197,981
	<u>16,047,489</u>	<u>15,950,872</u>
Construction in progress	127,664	703,901
Land, including leasehold interests	3,957,966	4,018,310
	<u>20,133,119</u>	<u>20,673,083</u>
	<u>\$27,197,155</u>	<u>\$25,385,855</u>

Approved by the Board:



Director



Director

DECEMBER 31, 1971

December 31, 1970) (note 1)

LIABILITIES

	<u>1971</u>	<u>1970</u>
CURRENT LIABILITIES		
Bank advances (note 4)	\$ 2,179,531	\$ 1,561,500
Accounts payable and accrued liabilities	3,011,516	3,677,418
Advances from associated companies	—	92,430
Principal instalments due within one year on long-term debt	1,626,115	1,700,771
Income taxes payable	4,654	—
	<u>6,821,816</u>	<u>7,032,119</u>
LONG-TERM DEBT (note 5)	<u>7,958,242</u>	<u>6,248,183</u>
DEFERRED INCOME TAXES (note 6)	<u>541,872</u>	<u>375,249</u>
MINORITY INTEREST	<u>35,622</u>	<u>—</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 3)		
Authorized		
3,000,000 Common shares par value \$1		
Issued		
2,000,000 Shares	2,000,000	2,000,000
CONTRIBUTED SURPLUS		
Premium on issue of common shares	10,000,000	10,000,000
DEFICIT		
	(160,397)	(269,696)
	<u>11,839,603</u>	<u>11,730,304</u>
	<u>\$27,197,155</u>	<u>\$25,385,855</u>

Commitments (note 7)

RIVTOW STRAITS LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970) (note 1)

	<u>1971</u>	<u>1970</u>
Income before items shown separately below	\$2,380,784	\$1,080,188
Directors' remuneration	129,900	116,357
Interest on long-term debt	738,893	655,729
	868,793	772,086
Income before depreciation, income taxes and extraordinary items	1,511,991	308,102
Depreciation (note 8)	1,340,392	1,169,699
Income (loss) before income taxes and extraordinary items	171,599	(861,597)
Income taxes (reduction) (note 6)		
Current	5,465	(10,222)
Deferred	—	(276,135)
	5,465	(286,357)
Income (loss) before extraordinary items	166,134	(575,240)
Extraordinary charges (note 9)	56,835	40,558
NET INCOME (LOSS) FOR THE YEAR	109,299	\$ (615,798)
Deficit at beginning of year	269,696	
DEFICIT AT END OF YEAR	\$ 160,397	
EARNINGS (LOSS) PER SHARE		
Income (loss) before extraordinary items	\$.08	\$(.29)
Net income (loss) for the year	\$.05	\$(.31)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970) (note 1)

	<u>1971</u>	<u>1970</u>
SOURCE OF FUNDS		
Operations		
Net income (loss) for the year	\$ 109,299	\$ (615,798)
Items not involving current funds		
Depreciation	1,340,392	1,169,699
Deferred income taxes	—	(212,038)
	<u>1,449,691</u>	<u>341,863</u>
Insurance proceeds less portion held by Industrial Development Bank (note 2)	736,600	—
Disposal of fixed assets, excluding insurance proceeds	227,347	47,773
Bank refinancing and other long-term debt	3,610,000	—
Other	(3,026)	9,750
	<u>6,020,612</u>	<u>399,386</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	1,521,561	3,653,113
Less		
Related long-term borrowing	(184,232)	(1,588,047)
Shares issued for purchases	—	(1,026,647)
	<u>1,337,329</u>	<u>1,038,419</u>
Long-term debt paid or currently maturing	2,993,782	1,539,677
Increase in other assets	111,906	127,026
Acquisition of interest in subsidiary companies less working capital and unpaid purchase consideration at date of acquisition	732,146	—
Dividends	—	82,749
	<u>5,175,163</u>	<u>2,787,871</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>845,449</u>	<u>(2,388,485)</u>
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	<u>2,661,101</u>	<u>272,616</u>
WORKING CAPITAL DEFICIENCY AT END OF YEAR	<u><u>\$1,815,652</u></u>	<u><u>\$2,661,101</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1971

1. BASIS OF REPORTING

(a) Consolidation

These consolidated financial statements include the accounts of RivTow Straits Limited, its subsidiary companies and Straits Tug Limited, not a subsidiary but included because Straits Towing Limited holds an option to acquire all of its outstanding shares for a nominal amount.

During 1971, the company acquired all of the issued shares of Armour Salvage (1949) Ltd. and Rupert Cement Products (1965) Ltd., and 90.5% of the issued shares of Great West Towing Ltd. (note 7). The equity in the earnings of these subsidiaries has been included in the consolidated statement of income from the dates of acquisition.

(b) Comparative figures

RivTow Straits Limited was incorporated on July 14, 1970 and, by a "Scheme of Arrangement" under the B.C. Companies Act, acquired all of the outstanding shares of Straits Towing Limited and RivTow Marine Ltd. with effect from November 16, 1970. Thus, the figures presented for comparative purposes in the statements of income and deficit and source and application of funds represent the combined figures for (1) Straits Towing Limited and its subsidiaries and Straits Tug Limited, the option company, (the "Straits Group") from January 1, 1970 to November 15, 1970, (2) RivTow Marine Ltd. and its subsidiaries (the "RivTow Group") for the same period and (3) RivTow Straits Limited and its subsidiaries (comprising the "Straits Group" and the "RivTow Group") for the period from November 16, 1970 to December 31, 1970. The accounting practices of the two groups of companies have been put on a consistent basis in combining the figures for 1970 for comparative purposes but, as described in note 8, changes in practice have been made in 1971. From November 16, 1970 depreciation charges reflect the revaluation of fixed assets for accounting purposes on that date, resulting in an increase in depreciation of \$40,095 for the period to December 31, 1970.

2. INVESTMENTS AND NON-CURRENT RECEIVABLES

(a) Investment in associated companies

During the year RivTow Straits Limited acquired a minority share interest in Bute Towing Limited and an option, exercisable to December 30, 1976, to purchase the remaining balance of the issued shares.

(b) Insurance proceeds receivable

Insurance proceeds on the RivTow Norseman, which sank during the year, have been paid to the Industrial Development Bank and are being held by the Bank as replacement security for their loan to the company. The proceeds are to be released to the company as required to meet vessel construction and deposit commitments (note 7).

3. FIXED ASSETS

The initial stated shareholders' equity of \$12,000,000, represented by the 2,000,000 shares issued at \$6 each, reflected appraised values of the principal fixed assets owned by the companies. The balance sheet values of most of the lands were arrived at by appraisers of Macaulay, Nicolls, Maitland & Co. Ltd. in March and April 1970; the values of the remaining properties, relatively minor amounts, were determined by officials of the companies. Vessels are carried at amounts approximating appraisals in April 1970 by J. P. Brown, Principal Surveyor, Marine Surveyors of Western Canada, less allowances for the fact that such values exceed amounts recognized by the tax authorities for purposes of determining future write-offs; plant and equipment other than vessels are carried at a nominal amount. All additions subsequent to the dates of appraisals are stated at cost.

The leases are of varying terms up to 20 years. Customarily, they are extended upon application by the lessee and consequently are considered to have a perpetual life.

4. BANK ADVANCES

These are secured by assignment of accounts receivable, marine mortgages on specified vessels and a debenture creating a floating charge on the assets ranking pari passu with a similar floating charge created by the issue of a debenture securing the long-term loan from the Industrial Development Bank.

5. LONG-TERM DEBT

	<u>Total</u>	<u>Due within one year</u>
Royal Bank term loan, due 1976, bearing interest at 1½% above the prime rate, secured by general assignment of accounts receivable, marine mortgages on specified vessels and fixed and floating charge debentures	\$3,250,000	\$ 500,000

RIVTOW STRAITS LIMITED

and subsidiary companies

	<u>Total</u>	<u>Due within one year</u>
Industrial Development Bank loan, due 1977, bearing interest at 10%, secured by real property and marine mortgages and by a debenture creating a floating charge on the assets of the company	3,060,000	400,000
First mortgage sinking fund bonds payable in U.S. funds, stated on a basis of U.S. dollars at a premium of 1%		
4.60% Series "A" bonds, due 1974	909,000	101,000
5.75% Series "B" bonds, due 1977	606,000	101,000
Other loans, notes, mortgages and agreements payable	1,759,357	524,115
	<u>9,584,357</u>	<u>\$1,626,115</u>
Less principal instalments due within one year included in current liabilities	1,626,115	
	<u>\$7,958,242</u>	

Principal instalments due within each of the next five years are as follows:

1972	\$1,626,115
1973	1,798,102
1974	2,220,743
1975	1,928,699
1976	1,342,530

6. INCOME TAXES

As a result of transactions with respect to vessels during 1971, no provision for deferred income taxes is required for the year and there are potential reductions of deferred income taxes if proceeds of disposal of certain vessels are utilized in the manner provided by incentive measures in the income tax law. The reductions in income taxes will be taken into income as they are realized.

There are potential income tax reductions arising from losses aggregating approximately \$145,000 in certain of the companies.

7. COMMITMENTS

- (a) The company is committed to lodge a deposit of approximately \$310,000 with the Department of Industry, Trade and Commerce by June 30, 1972.
- (b) RivTow Straits Limited is obligated to purchase from the Industrial Development Bank prior to December 31, 1973 the remaining 9.5% of the issued shares of Great West Towing Ltd. at a minimum cost of approximately \$125,000.

- (c) At December 31, 1971, RivTow Straits Limited was committed to spending \$900,000 on vessel purchases and modifications. Insurance proceeds receivable will be used to pay these commitments (note 2).

8. DEPRECIATION

The charges for depreciation shown in the combined figures for 1970 are not consistent with those for 1971 because (1) the methods adopted were refined in 1971 and (2) the combined figures for 1970 for the period prior to the date the separate enterprises were combined, November 16, 1970, do not reflect the revaluation of the assets.

In the 1970 fiscal period the company provided for depreciation of vessels by dividing the undepreciated book values by the estimated useful lives of the vessels. In 1971, provision was made on the same basis except that (1) the estimated useful lives of the larger vessels were reviewed and adjusted where appropriate and (2) consideration was given for the first time to the estimated residual values.

The 1970 combined figures have not been restated to give effect to the basis of recording depreciation adopted in 1971; had they been restated, depreciation would have been decreased by approximately \$175,000 and the loss would have been reduced by \$123,000 after provision for deferred income taxes. Thus the loss per share would have been \$.23 before extraordinary items and \$.25 after extraordinary items rather than \$.29 and \$.31 noted on the statement of income and deficit.

9. EXTRAORDINARY CHARGES (CREDITS)

	<u>1971</u>	<u>1970</u>
Reversal of judgment with respect to legal suit for damages originally decided in favour of the company	\$75,835	—
Reduction of U.S. exchange rate on sinking fund bonds	(19,000)	—
Deferred income taxes related to taxable inter-company dividends	—	\$71,133
Deferred income taxes related to vessel disposals	—	(7,036)
Recovery on 1966 accident claim	—	(23,539)
	<u>\$56,835</u>	<u>\$40,558</u>

10. OTHER STATUTORY INFORMATION

Term loans to directors who are also officers amounted to \$27,000 at December 31, 1971 (1970—\$31,500).

AUDITORS' REPORT

To the Shareholders of
RivTow Straits Limited

We have examined the consolidated balance sheet of RivTow Straits Limited and subsidiary companies as at December 31, 1971 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change, with which we concur, in the accounting practice set out in note 8 to the consolidated financial statements, have been applied on a consistent basis with that of the preceding year.

March 23, 1972

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants



Two new modern tugs were added to R.S.L.'s fleet in 1971. The 1800 H.P. "Mercer Straits" was launched at Star Shipyards on May 22nd; the 1450 H.P. "Hecate Straits" was commissioned June 17th. Both vessels have proven to be highly efficient and welcome additions to the fleet.



